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Attorney for Debtor

UNITED STATES BANKRUPTCY COURT

DISTRICT OF NEVADA

* * * * *

IN RE:

BK-10-50808
(Chapter 11)

LESARRA ATTACHED HOMES, L.P., a
Nevada Limited partnership,

MOTION TO VALUE COLLATERAL

Debtor.

Hearing Date: November 29, 2010
Hearing Time: 2:00 p.m.
Estimated Tim: 2 hours
Set By: Linda Duffy

COMES NOW, LESARRA ATTACHED HOMES, L.P., a Nevada limited partnership, Debtor and Debtor-in-Possession herein ("Debtor"), by and through its attorney, STEPHEN R. HARRIS, ESQ. of BELDING, HARRIS & PETRONI, LTD., and hereby moves this Court to value certain real property owned by the Debtor located in El Dorado Hills, El Dorado County, California, as more particularly described below. This real property serves as collateral securing Debtor's indebtedness to COMPASS BANK.

This Motion to Value Collateral ("MOTION") is made and based upon the Points and Authorities set forth below and the Exhibits attached hereto and all of the papers and pleadings on file herein, and is further brought pursuant to 11 U.S.C. §506 (a), Fed. R. Bankr. P. 3012 and Local Rule 3012.

1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. FACTS**

3 Debtor is the owner and developer of a condominium residential development located at
4 2230 Valley View Parkway, El Dorado Hills, El Dorado County, California, commonly known as
5 LESARRA. Real property that is the subject of this Motion consists of 15 completed units, 17
6 complete garage units and partially improved real property consisting of 105 condominium units,
7 and 59 garage pads with foundations only, which condominium units, garage and common areas
8 again are commonly referred to as LESARRA (hereinafter the "Property" or "Collateral").
9

10 The Property secures a promissory note with Compass Bank, with the balance owing of
11 approximately \$18,125,152.31, by way of a note and first deed of trust recorded against the
12 Property.
13

14 The value of the Property has been affected by the current economic downturn. The
15 Debtor attempted to implement a number of marketing programs to aggressively market the
16 property through the economic downturn. However, the Debtor's marketing efforts worked as
17 well as could be expected at the time, the collapse of the sub-prime lending industry, the timing of
18 conventional loan guidelines, the recessions, the Wall Street collapse and the new marketers short-
19 sales repossessed homes all worked together to create an atmosphere that the Debtor could not
20 compete against in order to sell its inventory at a level required to maintain profitability. As a
21 result, the Debtor ceased its sales efforts at the Lesarra Community in September 2009. Due to the
22 Debtor's inability to continue servicing its secured debt, on March 12, 2010, filed its Chapter 11
23 Reorganization Proceeding in order to have an opportunity to have to reorganize its business
24 affairs and debt structure to maximize the value of its assets for the benefit of the creditors.
25

26 Debtor filed its Debtor's First Amended Disclosure Statement and Debtor's First Amended
27 Plan of Reorganization on June 30, 2010, and then on August 5, 2010, Debtor filed Debtor's
28

1 Revised First Amended Disclosure Statement and Plan of Reorganization. The §1125 disclosure
2 statement approval hearing on Debtor's Revised First Amended Disclosure Statement is set for
3 August 31, 2010, but a request has been made for a future date. Previously on May 18, 2010,
4 Compass Bank filed Compass Bank's Motion for Relief from Automatic Stay [11 U.S.C. §362]
5 seeking relief from the automatic stay to permit it to foreclose on its collateral for its loan. On
6 July 30, 2010, the Court entered its order taking Compass Bank's Motion for Relief from
7 Automatic Stay under advisement without prejudice to Compass Bank to schedule the same for
8 hearing at a later date and time. The Court further ordered that the Debtor make an adequate
9 protection payment of \$40,000.00 on or before July 15, 2010, otherwise the stay would be
10 terminated with respect to Compass Bank's secured claim. The adequate protection payment was
11 timely paid. It was further ordered that the Debtor file an Amended Plan of Reorganization and
12 Amended Disclosure Statement no later than June 30, 2010, and the Court would then reschedule
13 Compass Bank's Motion for Relief From Automatic Stay for the same date and time of the
14 disclosure statement approval hearing.

15
16
17
18 The subject real properties securing Compass Bank's loan are commonly identified as
19 follows: Lesarra, 2230 Valley View Parkway, El Dorado Hills, California 95762, representing 15
20 completed units of standing inventory and 105 proposed units with site improvement in place for
21 the project, including foundations poured for seven buildings.

22 The Property is more particularly described in the appraisal performed by Integra Realty
23 Resources-Sacramento, dated August 26, 2010, a copy of which is attached hereto and
24 incorporated herewith as Exhibit "A" (hereinafter "Integra Appraisal"). The Integra Appraisal
25 concludes the market value of the property at "as is" is \$3,220,000.00. INTEGRA APPRAISAL
26
27 AT PAGE 74.

Compass Bank's claim secured against the Property is approximately \$18,125,152.31. There is a discrepancy in the amount of \$14,905,152.31 between the secured value of the collateral of the Property and the amount of Compass Bank's secured claim. In order to determine the amounts of Compass Bank's claim which is secured and unsecured under 11 U.S.C. §506(a), it is necessary that there be a valuation of the Property.

II. ARGUMENT

A. Compass Bank's claim is only secured to the amount of \$3,220,000.00, calculated as of August 19, 2010.

11 U.S.C. §506(a) bifurcates a creditor's allowed claim into two parts: (1) secured to the extent of the value of the property to which the creditor's interest in the lien property attaches; and (2) unsecured to the extent the claim exceeds the value of the underlying property. The claim, such as a Deed of Trust, is not a "secured claim" to the extent that it exceeds the value of the property that secures it. Under the Bankruptcy Code, "secured claim" is thus a term of art; not every claim that is secured by a lien on property will be considered a "secured claim" In re Zimmer, 313 F.3d 1220 (9th Cir. 2002).

In the present case, the amount that Compass Bank alleges is due and owing on it is approximately \$18,125,152.31, calculated as of the Petition Date. Assuming that balance owing is accurate, after deducting the value of the Collateral from that amount, the resulting balance would represent the unsecured portion of Compass Bank's claim. Based upon the Integra Appraisal, there is a swing of approximately \$14,905,152.31 from secured to unsecured status with respect to the Compass Bank claim, which would have a significant impact upon the Debtor's proposed treatment of Compass Bank and other creditors under its Plan of Reorganization. Thus it is critical that there be a full and complete valuation of the Property which serves as collateral for the Compass Bank loan. A final determination of this value will also ultimately impact remaining creditors of the estate and

1 particularly the unsecured creditors.

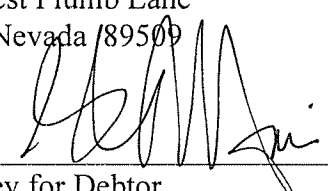
2 Assuming arguendo, that Compass Bank's total claim is approximately \$18,125,152.31, then
3 Compass Bank would have a secured claim in the amount of \$3,220,000.00 and an unsecured claim
4 in the amount of \$14, 905,152.31, based upon the Integra Appraisal. This is a significant difference
5 classification amount because of substantial impact on the remaining creditors and unsecured
6 creditors of the estate.
7

8 Based on the foregoing, the Debtor seeks to value the Property and to accept the findings and
9 analysis of the Property as set forth in the Integra Appraisal as set forth in Exhibit "A" as being the
10 most recent, up to date and current analysis regarding market conditions affecting the Property and
11 valuation of the Property. The value of the Property is conditioned on a governmental lot line
12 adjustment approval allowing the 105 units that are currently foundation ready, only to be built as an
13 apartment complex, and are able to be rented as apartments, and not necessarily sold as
14 condominiums.
15

16 WHEREFORE, Debtor prays that this Court enter its order determining that the value of the
17 Property which serves a collateral for the Compass Bank loan so that Compass Bank's claim recorded
18 against the subject Property may be appropriately allowed and bifurcated and allocated in the
19 appropriate amounts as to secured and unsecured status pursuant to 11 U.S.C §506(a) for treatment
20 under the Debtor's Revised First Amended Plan of Reorganization, as may be amended.
21

22 DATED this 10th day of September, 2010
23

24 STEPHEN R. HARRIS, ESQ.
25 BELDING, HARRIS & PETRONI, LTD.
26 417 West Plumb Lane
27 Reno, Nevada 89509
28


Attorney for Debtor

CERTIFICATE OF SERVICE

I, Aaron Horton certify that I am, and at all times during the service of process was, not less than 18 years of age and not a party to the matter concerning which service of process was made. I further certify that the service of this **MOTION TO VALUE COLLATERAL** was made this 10th day of September, 2010.

Electronic Service;


☒

Mail and Email Service: Regular, first class United States mail, postage fully pre-paid, addressed to:

Bruce T. Beesley, Esq.
Lewis and Roca LLP.
50 West Liberty Street, Ste. 410
Reno, NV 89501

**UNDER PENALTY OF PERJURY, I DECLARE THAT THE FOREGOING IS TRUE
AND CORRECT.**

DATED this 10th day of September, 2010.



LISA BAILEY, LEGAL ASSISTANT to
BELDING, HARRIS & PETRONI, LTD

EXHIBIT "A"

APPRAISAL OF REAL PROPERTY

Lesarra

Condominium Property
2230 Valley View Parkway
El Dorado Hills, El Dorado County, California 95762

PREPARED FOR:

Stephen Harris
c/o Lesarra Attached Homes, LP
Belding, Harris & Petroni
470 W. Plumb Lane
Reno, Nevada 89509

EFFECTIVE DATE OF THE APPRAISAL:

August 19, 2010

REPORT FORMAT:

Self-Contained

INTEGRA REALTY RESOURCES - SACRAMENTO

File Number: 5924

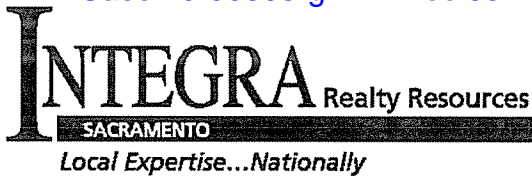


INTEGRA Realty Resources

LOCAL EXPERTISE...NATIONALLY



**Lesarra
2230 Valley View Parkway
El Dorado Hills, California**



August 26, 2010

Stephen Harris
c/o Lesarra Attached Homes, LP
Belding, Harris & Petroni
470 W. Plumb Lane
Reno, Nevada 89509

SUBJECT: Market Value Appraisal
Lesarra
2230 Valley View Parkway
El Dorado Hills, El Dorado County, California 95762
Client Reference Number:
Integra Sacramento File No. 5924

Dear Mr. Harris:

Integra Realty Resources – Sacramento is pleased to submit the accompanying appraisal of the referenced property. The purpose of the appraisal is to develop an opinion of the fee simple interest of the property under the following valuation scenarios:

- Market Value As Is of Entire Property
- Market Value As Is of 15 Completed Units
- Market Value As Is of 105 Lots

The client for the assignment is Belding, Harris & Petroni, and the intended use is for asset valuation purposes.

The appraisal is intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

To report the assignment results, we use the self-contained report option of Standards Rule 2-2 of USPAP. Accordingly, this report contains all information significant to the solution of the appraisal problem.

The subject is a portion of a condominium project known as Lessara. The subject of the appraisal is the unsold units and vacant land within the 160-unit planned development. In the entire project, 4 buildings (55 units) have been completed and 40 units have sold. The subject property represents 15 completed units of standing inventory and 105 proposed units. All site improvements are in place for the project and the foundations have been poured for the

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remaining 7 buildings (105 units). The highest and best use of the property is to sell off the completed homes and hold the land for future development.

Based on the valuation analysis in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed in the report, our opinions of value are as follows:

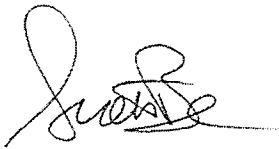
VALUE CONCLUSIONS			
Appraisal Premise	Interest Appraised	Date of Value	Value Conclusion
Market Value As Is	Fee Simple	August 19, 2010	\$3,220,000
Market Value As Is of 15 Condominiums	Fee Simple	August 19, 2010	\$1,320,000
Market Value As Is of 105 Vacant Lots	Fee Simple	August 19, 2010	\$1,900,000

The values reported are not subject to any Extraordinary Assumptions or Hypothetical Conditions.

If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

INTEGRA REALTY RESOURCES - SACRAMENTO



Scott Beebe, MAI, FRICS
Certified General Real Estate Appraiser
California Certificate #AG015266



Krista Castro
Certified General Real Estate Appraiser
California Certificate # AG029797

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LESARRA

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Name	Lesarra		
Address	2230 Valley View Parkway El Dorado Hills, California 95762		
Property Type	Condominium - Attached Condominium		
Owner of Record	Lessara Attached Homes (Pacific West Companies)		
Tax ID	118-232-01, 03, 05; 118-233-07, 118-301-01 thru 04; 118-302-01 thru 08, 118-311-01 thru 03; 118-312-01 thru 08; 118-313-01 thru 08, 118-321-01 thru 03; 118-322-01 thru 08; 118-323-01 thru 08, 118-331-01 thru 03; 118-332-01 thru 08; 118-333-01 thru 08, 118-291-01 thru 04; 118-292-01 thru 08, 118-261-001, 04; 118-262-01, 02, 03, 05, 118-251-04; 118-252-01, 02, 03, 118-281-01 thru 04; 118-282-01 thru 08, 118-271-01 thru 04; 118-272-01 thru 08, and 118-220-01 thru 13		
Land Area (Gross)	14.24 acres; 620,251 SF		
Number of Units	15 Completed; 105 Proposed		
Year Built	Last Units Completed in 2009		
Zoning Designation	CR, Core Residential		
Highest and Best Use			
As if Vacant	Hold for future high density residential use		
As Improved	High density residential use		
Exposure Time; Marketing Period	6-9 months; 6-9 months		
VALUE CONCLUSION			
Appraisal Premise	Interest Appraised	Date of Value	Value Conclusion
Market Value As Is	Fee Simple	August 19, 2010	\$3,220,000
Market Value As Is of 15 Condominiums	Fee Simple	August 19, 2010	\$1,320,000
Market Value As Is of 105 Vacant Lots	Fee Simple	August 19, 2010	\$1,900,000

GENERAL INFORMATION

IDENTIFICATION OF SUBJECT

The subject is a portion of a condominium project known as Lessara. The subject of the appraisal is the unsold units and vacant land within the 160-unit planned development. In the entire project, 4 buildings (55 units) have been completed and 40 units have sold. The subject property represents 15 completed units of standing inventory and 105 proposed units. All site improvements are in place for the project and the foundations have been poured for the remaining 7 buildings (105 units). The highest and best use of the property is to sell off the completed homes and hold the land for future development. A legal description of the larger property is in the addenda.

PROPERTY IDENTIFICATION	
Property Name	Lesarra
Address	2230 Valley View Parkway El Dorado Hills, California 95762
Tax ID	118-232-01, 03, 05; 118-233-07, 118-301-01 thru 04; 118-302-01 thru 08, 118-311-01 thru 03; 118-312-01 thru 08; 118-313-01 thru 08, 118-321-01 thru 03; 118-322-01 thru 08; 118-323-01 thru 08, 118-331-01 thru 03; 118-332-01 thru 08; 118-333-01 thru 08, 118-291-01 thru 04; 118-292-01 thru 08, 118-261-001, 04; 118-262-01, 02, 03, 05, 118-251-04; 118-252-01, 02, 03, 118-281-01 thru 04; 118-282-01 thru 08, 118-271-01 thru 04; 118-272-01 thru 08, and 118-220-01 thru 13
Census Tract Number	307.04

CURRENT OWNERSHIP AND SALES HISTORY

The owner of record is Lessara Attached Homes (Pacific West Companies). This party acquired the property from El Dorado Hills Investors as vacant land in March 2005 for a price of \$4,000,000. Since the date of acquisition, Pacific West Companies obtained a condominium map on the site for 160 condominium units and completed 55 units. Of those, 40 units have been sold/closed. The sales office for the project was closed in September 2009. There have been no sales within the project in the past 12 months. The entity that owns the subject property has filed for Chapter 11 bankruptcy.

All site improvements (parking lots, clubhouse) and foundations have been completed for the entire project. The subject of this appraisal is the 15 unsold/completed units and all of the remaining land.

To the best of our knowledge, no sale or transfer of ownership has occurred within the past three years, and as of the effective date of this appraisal, the property is not subject to an agreement of sale or option to buy, nor is it listed for sale.

PURPOSE, PROPERTY RIGHTS AND EFFECTIVE DATE

The purpose of the appraisal is to develop an opinion of the market value as is of the fee simple interest in the property as of the effective date of the appraisal, August 19, 2010. As requested, we also estimate the market value as is of 15 condominiums and market value as is of 105 vacant lots of the fee simple interest, as of August 19, 2010.

DEFINITION OF MARKET VALUE

Market value is defined as:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.” (Source: 12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

DEFINITION OF PROPERTY RIGHTS APPRAISED

Fee simple estate is defined as an: “Absolute ownership interest unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.” (Source: The Dictionary of Real Estate Appraisal, Fourth Edition, 2002.)

CLIENT, INTENDED USER AND INTENDED USE

The client and intended user is Belding, Harris & Petroni. The intended use is for asset valuation purposes. The appraisal is not intended for any other use or user.

PRIOR SERVICES

We have appraised the subject property in the past three years. We last appraised the property in 2009.

APPLICABLE REQUIREMENTS

This appraisal is intended to conform to the requirements of the following:

- Uniform Standards of Professional Appraisal Practice (USPAP)

- Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute

SCOPE OF WORK

To determine the appropriate scope of work for the assignment, we considered the intended use of the appraisal, the needs of the user, the complexity of the property, and other pertinent factors. Our concluded scope of work is described below.

VALUATION METHODOLOGY

The three traditional approaches to valuation were considered in the analysis: Cost Approach, Sales Comparison Approach, and Income Approach (Static Residual Analysis and/or Yield Capitalization – DCF). Strong declines in the residential market have occurred since the market's peak, particularly over the past year. Buyers place no reliance on Cost Approach-type analysis in their purchase decisions and will not be used for this valuation scenario.

In the valuation of the 15 condominium units we will use the Sales Comparison Approach to estimate the value of the individual units. We will use the Income Approach (DCF - Yield Capitalization) to estimate the bulk value of the homes.

In the valuation of the 105 lots that are vacant for future development we have used both a Sales Comparison Approach and a Yield Capitalization analysis.

This analysis is sufficiently reliable to arrive at a credible result. Use of the approaches in this assignment is summarized as follows:

APPROACHES TO VALUE		
Approach	Applicability to Subject	Use in Assignment
Cost Approach	Not applicable	Not Utilized
Sales Comparison Approach	Applicable	Utilized
Income Capitalization Approach	Applicable	Utilized

OTHER RESEARCH AND ANALYSIS

Additional steps taken to gather, confirm, and analyze relevant data, are detailed in individual sections of the report.

PROPERTY INSPECTION

Krista Castro conducted an interior and exterior inspection on August 11, 2010. The property inspection consisted of touring several of the condominium units at the property and an exterior walk of the site. Scott Beebe, MAI, FRICS performed an exterior inspection of the property prior to this date.

REPORT FORMAT

This report is prepared under the self-contained report option of Standards Rule 2-2 of USPAP. Accordingly, the report contains all information significant to the solution of the appraisal problem.

ECONOMIC ANALYSIS

SACRAMENTO MSA ANALYSIS

INTRODUCTION

Sacramento, the capital of California, is located in the north-central part of the state, roughly 85 miles northeast of San Francisco. The official Sacramento MSA (metropolitan statistical area) includes the counties of Sacramento, Placer, Yolo and El Dorado.

ECONOMIC OVERVIEW

The U.S. economy had exhibited signs of modest recovery for most of the past year; however, conditions remain very fragile and recent data has shown that the recovery appears to have slowed. These trends have lead to concerns of a double-dip recession; however, most mainstream economists agree that the road to recovery will be long and difficult, but not likely to include back-to-back recessions.

Unemployment levels are expected to remain high in the near term as the transition from a stimulus-driven recovery to a sustainable business expansion cycle will occur gradually. As employers are expected to shift into expansion mode slowly, most analysts are projecting below average job growth during 2010; however, job creation is expected to gain momentum during 2011 and 2012. On a national basis, California's Central Valley (including the Sacramento region) was especially hard hit by the housing market implosion and the following economic recession. Given these factors, the Sacramento region is expected to trail the nation in terms of economic recovery.

Total nonfarm employment in the Sacramento MSA peaked in June 2007 at 910,900 and experienced moderate declines through year-end 2007. Job losses escalated in 2008 and 2009, with nonfarm employment hitting bottom in February 2010 at 810,300. From peak to trough, regional employment declined by 100,600 or 11%. As of June 2010, the region posted a nonfarm employment total of 818,000, indicating a decline of 1,000 jobs in comparison to the May 2010 level. The June 2010 employment represents a gain of 7,700 jobs or a growth of 1% in comparison to the February 2010 low.

The recent employment by industry trends for the four county Sacramento MSA are summarized in the following table.

SACRAMENTO MSA - EMPLOYMENT BY INDUSTRY**Data not Adjusted for Seasonality*

Employment by Industry	Comparisons vs. Current			Percent Change	
	Jun-09	May-10	Jun-10	Month	Year
Agriculture	9,700	8,200	8,300	1.2%	-14.4%
Natural Resources and Mining	400	500	500	0.0%	25.0%
Construction	44,900	36,400	36,600	0.5%	-18.5%
Manufacturing	34,400	33,400	33,700	0.9%	-2.0%
Trade, Transportation and Utilities	134,500	130,800	131,200	0.3%	-2.5%
Information	18,100	17,400	17,400	0.0%	-3.9%
Financial Activities	54,000	51,100	51,100	0.0%	-5.4%
Professional and Business Services	100,000	96,300	96,800	0.5%	-3.2%
Education and Health Services	99,300	99,400	98,100	-1.3%	-1.2%
Leisure and Hospitality	83,600	79,400	80,200	1.0%	-4.1%
Other Services	29,200	27,600	27,500	-0.4%	-5.8%
Government	241,600	246,700	244,900	-0.7%	1.4%
Total Industry Employment	849,700	827,200	826,300	-0.1%	-2.8%
Total Non Farm Employment	840,000	819,000	818,000	-0.1%	-2.6%
<i>Net Gain/Loss (Non Farm)</i>	---	---	---	-1,000	-22,000
<i>% Increase/Decrease (Non Farm)</i>	---	---	---	-0.1%	-2.6%
Unemployment Rates	Jun-09	May-10	Jun-10		
Sacramento MSA	11.4%	11.9%	12.4%		
State of California	11.6%	11.9%	12.2%		
U.S.	9.7%	9.3%	9.6%		

Source: California Employment Development Department - Labor Market Information Division

In comparison to year ago levels, job growth has been negative in every major sector except Government; however, on a positive note, the region has experienced moderate job growth for three months beginning in March 2010.

Based on preliminary June 2010 data, the four-county Sacramento MSA supported 2.6% fewer jobs than it did at the same point in the previous year. Preliminary data shows that, the nonfarm sectors within the Region lost 22,000 jobs in the past 12 months. On a positive note, the 2-plus year trend of job loses appears to have run its course as the region posted flat to positive job growth from March through May 2010; however, the preliminary June statistics reflect a net decline of 1,000 nonfarm jobs over the past month.

Based on preliminary June data, five of the 10 major sectors posted job gains over the past month, with three posting declines; however, the totals reflect a net loss of 1,000 jobs. The major declines were in the Government (-1,800) and Education and Health Services (-1,300) sectors.

The state's employment pattern also appears to be stabilizing over the past few months, although year-over-year nonfarm job growth was a negative 1.3% in June 2010 (reflecting a loss of 186,100 jobs in the last year). Based on seasonally adjusted data, California's unemployment rate in June 2010 was reported at 9.5%, which is identical

to the year ago rate of 9.5%. Unadjusted data shows a June 2010 rate of 12.2%, versus the year ago level of 11.6%.

One of the major positive influences on the Sacramento MSA has been its affordability in comparison to the nearby Bay Area, especially with respect to housing. This factor acted as a catalyst, luring both residents and corporations to the area. In fact, much of the robust expansion enjoyed in past years is due to the relocation of residents and corporations from the Bay area and other areas of California. As housing prices skyrocketed in the Sacramento region, the area became less attractive to Bay Area transplants; however, the on-going correction in the region's housing market is expected to reverse this trend. In the long-term, Sacramento's cost advantages relative to the Bay Area should become a factor again, with significant potential to spur another round of strong population growth and economic expansion.

Given Sacramento's role as the capital city of California, government employment, well known for contributing to general stability, accounts nearly 30% of total MSA non-farm employment, a very large share by national norms. Going forward, the region's economy is expected to continue to slowly transition from one primarily dominated by government employment to one increasingly influenced by private sector industries; however, given that Sacramento is the hub of California state government (which employs over 110,000 people in the MSA), government will always play a significant role in the region's economic base.

MAJOR EMPLOYERS

Historically, Sacramento has typically weathered economic downturns much better than other national and California markets. This is due in large part to the presence of the state government. California represents the sixth largest economy in the world and Sacramento represents the hub of California state government. Employment growth will continue over the long-term in State Government due to demographic pressures, a surge in college enrollment, and increased demand for basic State services. Additionally, state employment will increase as a result of more federal programs continuing to be transferred to state control. Thus, near term fluctuations in state employment are not considered a long term concern for the region. The following table summarizes Government employment statistics for the Sacramento MSA.

Government Employment Breakdown						
Category	Annual Average			% Total Employment	1 Year Change	
	2007	2008	2009		No.	%
Federal	12,400	12,500	12,700	1.5%	200	1.6%
State	109,600	111,400	111,800	13.4%	400	0.4%
Local	113,100	114,300	114,000	13.7%	-300	-0.3%
Total	235,100	238,200	238,500	28.6%	300	0.1%

*Source: California Employment Development Department -
Labor Market Information Division*

The region's largest private sector employers are summarized as follows.

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SACRAMENTO MSA ANALYSIS

LARGEST PRIVATE-SECTOR EMPLOYERS									
Rnk	Company	Local FTE	Business Type	Yr. Estab. in Area	Rnk	Company	Local FTE	Business Type	Yr. Estab. in Area
1	Kaiser Permanente	10,081	healthcare	1965	14	EDS	1,643	tech systems	1983
2	CHW/Mercy	8,279	healthcare	1896	15	Aerojet	1,587	aerospace/defense	1952
3	Sutter Health	7,314	healthcare	1923	16	DST Output	1,300	paper/elec. svcs	1988
4	Intel Corp	6,000	tech /mfg	1984	17	Marshall Medical Center	1,040	healthcare	1959
5	Wells Fargo	3,690	financial svcs.	1852	18	Franklin Templeton	1,000	investment mgmt	1992
6	Raley's	3,401	retail grocery	1935	19	The Sacramento Bee	800	newspaper	1852
7	PRIDE Industries	2,841	mail/logistics svcs.	1966	20	NEC Electronics	791	tech /mfg	1983
8	Health Net	2,512	healthcare	1978	21	Campbell Soup Co.	725	food products	1947
9	Cache Creek Casino	2,460	gaming	1985	22	SureWest Communications	703	telecommunications	1914
10	PG&E	2,169	utility distribution	1905	23	Nugget Market, Inc	680	retail grocery	1926
11	Hewlett-Packard Co	2,000	tech /mfg	1979	24	Rex Moore Electrical	600	electrical/telecom	1922
12	Vision Service Plan	1,832	vision benefits/svcs	1968	25	Siemens Mobility	550	eng /mfg -light rail	1984
13	Blue Shield of CA	1,705	health insurance	1947					

Source: Sacramento Business Journal - 6/12/09

In the private sector, education and health services and professional services account for more than half of the region's economic base. High-tech manufacturing holds added promise for the future as existing companies continue to grow and new companies chose to locate to the region.

REAL ESTATE TRENDS

The residential housing market experienced unprecedented demand and appreciation between 2000 and mid-2005; however, these patterns were the result of a market propped-up by defective mortgage products and hype rather than economic fundamentals. After a slow 2nd half of 2005, the depth of the regional housing slump became apparent in 2006 and the market continued on a downward through 2009. Most analysts are of the opinion that the housing market has bottomed, but nobody is projecting a significant near-term rebound. The region's commercial real estate markets have also been hit hard by the fallout from the residential market and the overall economic downturn. Over the last 24-30 months, the retail office and industrial sectors have experienced continually increasing vacancy rates, with most sectors posting record high vacancy levels. As a result, effective rental rates for office, retail and industrial space have declined considerably during this time.

The fall-out from the residential housing market correction and the severe economic downturn will likely continue to impact the regional economy for the balance of 2010; however, the Sacramento region's strong economic and demographic fundamentals (including affordability for business, a stock of developable land, the broad diversification of the economy, and strong population in-migration) bode well for the mid-to-long range future.

DEMOGRAPHIC INFORMATION

As previously mentioned, the Sacramento MSA is comprised of four counties. According to the California Department of Finance, the region had a total population of 2,177,401 as of January 1, 2010, with approximately 66% of the region's residents living in Sacramento County. Claritas indicates a similar 2010 population for the region (2,166,538). The following table summarizes the key demographic information for Sacramento MSA based on data from Claritas.

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SACRAMENTO MSA ANALYSIS

DEMOGRAPHIC SNAPSHOT - SACRAMENTO MSA												
COUNTIES INCLUDED: SACRAMENTO, PLACER, EL DORADO & YOLO												
SACRAMENTO MSA			Sacramento County		Placer County		El Dorado County		Yolo County			
Population												
2015 Projection			2,366,916		1,547,212		404,922		193,585		221,197	
2010 Estimate			2,166,538		1,432,253		351,314		180,257		202,714	
2000 Census			1,796,857		1,223,499		248,399		156,299		168,660	
1990 Census			1,481,126		1,041,219		172,796		125,995		141,116	
Compound Annual Growth Rates												
Projection 2010-2015			1.78%		1.56%		2.88%		1.44%		1.76%	
2000-2010			1.89%		1.59%		3.53%		1.44%		1.86%	
1990-2000			1.95%		1.63%		3.70%		2.18%		1.80%	
Households												
2015 Projection			870,419		563,759		156,063		74,412		76,185	
2010 Estimate			797,203		524,119		134,013		68,900		70,171	
2000 Census			665,298		453,602		93,382		58,939		59,375	
1990 Census			556,456		394,530		64,101		46,845		50,980	
Compound Annual Growth Rates												
Projection 2010-2015			1.77%		1.47%		3.09%		1.55%		1.66%	
2000-2010			1.83%		1.46%		3.68%		1.57%		1.68%	
1990-2000			1.80%		1.41%		3.83%		2.32%		1.54%	
2010 Est. Average Household Income			\$79,816		\$74,490		\$94,408		\$89,830		\$78,534	
2010 Est. Median Household Income			\$62,145		\$58,916		\$73,398		\$69,430		\$58,283	
2010 Est. Per Capita Income			\$29,656		\$27,730		\$36,243		\$34,462		\$27,576	
2010 Est. Housing Units			797,203 %		524,119 %		134,013 %		68,900 %		70,171 %	
Owner Occupied			498,480 62.53		313,779 59.87		97,104 72.46		49,846 72.35		37,751 53.80	
Renter Occupied			298,723 37.47		210,340 40.13		36,909 27.54		19,054 27.65		32,420 46.20	
2010 Average Household Size			2.67		2.68		2.60		2.60		2.76	

Source: Claritas

Population

As a result of escalating real estate prices and congestion in the San Francisco and Los Angeles areas, residents of these regions began flocking to the Sacramento region in the 1980's and this trend has continued. Businesses began making similar moves, especially from the crowded and seismically unstable Bay Area. Between 1990 and 2000, the MSA added some 288,187 new residents according to the U.S. Census estimates. Aside from affordability, the region's geographical characteristics are some of the area's most important strengths. Many business regard earthquake avoidance as well as proximity to the Pacific Rim and the West Coast as important factors in selecting the area for relocation.

According to Claritas, the population of the Sacramento MSA increased at a compounded annual rate of 1.89% from 2000 to 2010. Looking ahead, the Sacramento MSA is anticipated to experience continued growth, with future population estimates reflecting growth rates similar to those experienced in the past. For the period 2010 to 2015, the population of the Sacramento MSA is expected to increase by an average annual compound rate of 1.77%.

Income

Personal income is a significant factor in determining the real estate demand in a given market. Over the past five years the Sacramento MSA's income grew at an average annual compound rate of 1.2%, compared to California's average annual compound growth rate of 1.6%. Projections for the next five years reflect growth rates for the Sacramento MSA that is generally consistent to the anticipated gains for California. The Sacramento MSA is anticipated to experience a 2.5% and average annual growth rate, compared to the projected growth rate for California of 2.6%.

The 2010 household income statistics for the region are summarized in the following tables.

2010 Estimated Households by Household Income		
Total Households	797,203	%
Income Less than \$15,000	74,247	11.48
Income \$15,000 - \$24,999	67,089	13.39
Income \$25,000 - \$34,999	71,037	12.66
Income \$35,000 - \$49,999	110,424	17.14
Income \$50,000 - \$74,999	156,041	21.16
Income \$75,000 - \$99,999	115,733	12.18
Income \$100,000 - \$124,999	72,041	5.61
Income \$125,000 - \$149,999	47,321	2.95
Income \$150,000 - \$199,999	46,780	2.29
Income \$200,000 - \$499,999	30,533	1.00
Income \$500,000 and more	5,957	0.14
2010 Est. Average Household Income	\$79,816	
2010 Est. Median Household Income	\$62,145	
2010 Est. Per Capita Income	\$29,656	

INCOME COMPARISONS						
COUNTIES INCLUDED: SACRAMENTO, PLACER, EL DORADO & YOLO						
	Sacramento MSA	Sacramento County	Placer County	El Dorado County	Yolo County	State of California
2010 Est. Average Household Income	\$79,816	\$74,490	\$94,408	\$89,830	\$78,534	\$84,690
2010 Est. Median Household Income	\$62,145	\$58,916	\$73,398	\$69,430	\$58,283	\$62,401
2010 Est. Per Capita Income	\$29,656	\$27,730	\$36,243	\$34,462	\$27,576	\$28,699

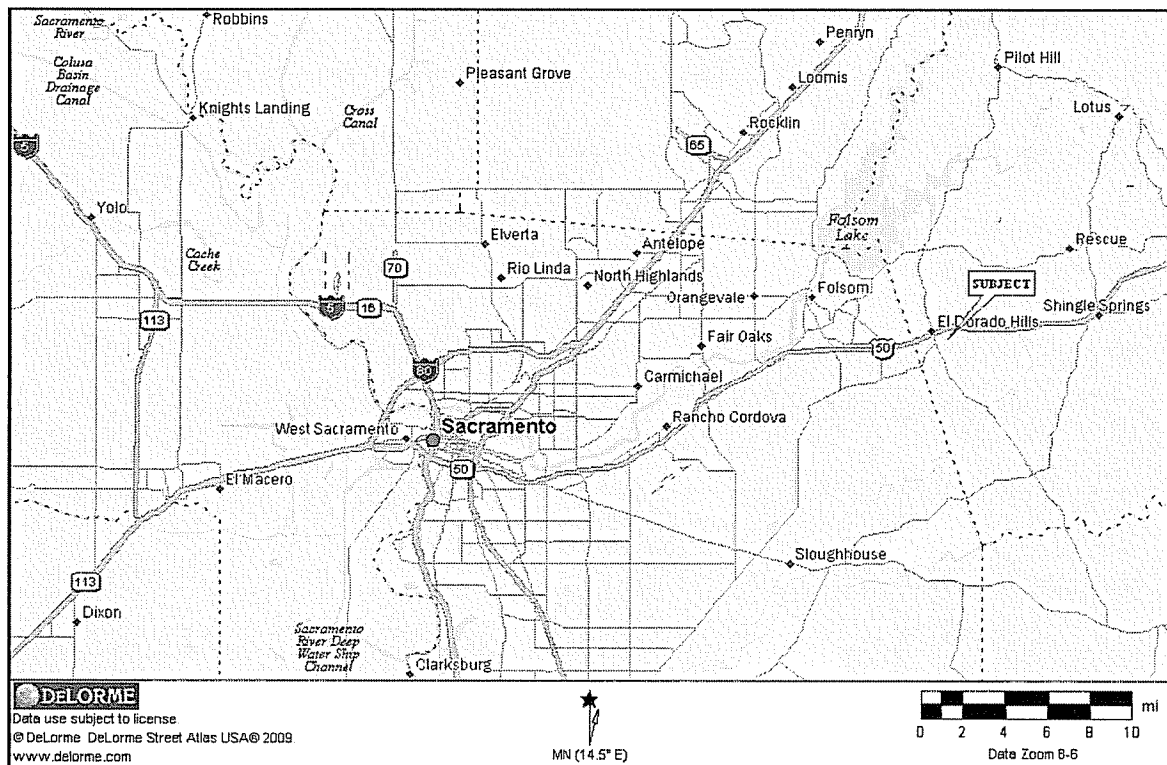
An examination of income per household reveals that, historically, the Sacramento MSA has experienced a growth rate slightly below that of California. Future projections predict similar growth for the Sacramento MSA compared to California. In absolute dollars, the Sacramento MSA's personal income historically has been similar to that of California, both on per capita and per household bases.

CONCLUSIONS

On a national basis, California's Central Valley (including the Sacramento region) was especially hard hit by the housing market implosion and the following economic recession. Given these factors, the Sacramento region is expected to trail the nation in terms of economic recovery. While it appears that a nearly two year regional trend of job losses has recently subsided, near term employment growth is expected to be moderate at best and it will take a number of years of strong growth to replace the nearly 100,000 jobs that were lost regionally during the downslide.

Despite the current economic conditions, the longer term outlook for the region is still encouraging due to strong fundamentals. The region has experienced substantial growth over the past 20 years. Much of this growth is attributed to the area's quality of life and affordable housing costs relatively to nearby coastal areas. Sacramento has historically had a broad based economy (anchored by Government, the university system and agribusiness) and benefits from low labor costs and its location as a regional hub. These economic insulators have historically cushioned the area from more severe impacts experienced by other parts of the state and country during periods of economic instability.

The region's affordability and attractiveness with respect to business in-migration, population growth, and development opportunities are considered embedded long-range assets. On a long-term basis, it is anticipated that the Sacramento MSA and will continue to grow and prosper. This future growth should provide an economic base that supports continued demand for real estate of all types on a long-term basis.



AREA MAP

SURROUNDING AREA ANALYSIS

INTRODUCTION

The subject property is located in an unincorporated portion of western El Dorado County known as El Dorado Hills. El Dorado Hills consists of approximately 27,000 acres located in the Sierra Nevada Mountain foothills, with elevations ranging from 450 to 1,200 feet above sea level. The neighborhood is approximately 30 miles east of Downtown Sacramento, and has emerged as one of the most active growth areas for "move-up" production housing and custom lot residential development in the region. El Dorado Hills has a current population of over 20,000 residents and is expected to increase to nearly 65,000 by 2035, according to projections by the Sacramento Area Council of Governments. The subject neighborhood can be physically delineated by the following boundaries:

North	Folsom Lake
South	South Shingle Road
East	Community of Cameron Park
West	Sacramento County Line/Folsom City Limits

The subject neighborhood is an area that is predominantly comprised of single-family residential subdivisions. Additional land uses include a limited supply of multi-family residential, retail and commercial support services and some limited office. It is estimated that the area is approximately 50 percent built out. The housing stock is relatively young, with the majority of homes constructed since 1980. The general condition and quality of the housing in the area is rated as above average in comparison to the county as a whole. Single-family residences comprise most of the land area in the neighborhood.

POPULATION & HOUSING STATISTICS

Due to the fact that the El Dorado Hills community is an unincorporated area of Sacramento County, the appraisers have researched demographic information from Claritas, Inc. The report obtained by the appraisers address a one mile, three mile and five mile radius surrounding the subject location. This information will be summarized and utilized throughout this appraisal for demographic data. The following tables summarize the population and household statistics for the subject area.

Latrobe & Town Center - Population Statistics			
	1 Mile Radius	3 Mile Radius	5 Mile Radius
2015 Projection	2,963	28,207	94,442
2010 Estimate	2,623	24,824	83,399
2000 Census	1,365	12,400	53,864
1990 Census	924	6,049	26,704
Growth 2010-2015	12.96%	13.63%	13.24%
Growth 2000-2010	92.16%	100.19%	54.83%
Growth 1990-2000	47.73%	104.99%	101.71%

Latrobe & Town Center - Household Statistics			
	1 Mile Radius	3 Mile Radius	5 Mile Radius
2015 Projection	1,060	9,804	33,037
2010 Estimate	938	8,660	29,204
2000 Census	462	4,148	18,718
1990 Census	307	1,989	9,150
Growth 2010-2015	13.01%	13.21%	13.12%
Growth 2000-2010	103.03%	108.78%	56.02%
Growth 1990-2000	50.49%	108.55%	104.57%

As the two tables above illustrate, population and household statistics have increased dramatically since 1990. During the decade of the 1990s, both population and households increased by over 100% in the five mile radius and from 48% to 50% in the one and three mile radius surrounding the subject area. The 2010-2015 projections for both households and population in the one, three and five mile radius surrounding the subject area range from roughly 13 to 14%. These are solid population statistics and indicate that the subject neighborhood is a developing area of the Sacramento MSA.

HOUSEHOLD INCOME FIGURES

The following table summarizes the 2010 household and per capita income for the areas surrounding the subject, as published by Claritas, Inc.

Latrobe & Town Center - Household Income Statistics			
	1 Mile Radius	3 Mile Radius	5 Mile Radius
2010 Est. Average Household Income	\$134,529	\$142,177	\$126,974
2010 Est. Median Household Income	\$107,382	\$115,343	\$104,719
2010 Est. Per Capita Income	\$48,115	\$49,605	\$44,523

TRANSPORTATION/ACCESS

Highway 50 provides access to Downtown Sacramento, located 30 miles west and other employment centers, such as Folsom and Rancho Cordova, which are developing along the highway. Over the next few years, Highway 50 will be under construction with several road projects. Traffic congestion is already heavy on this venue during rush hour, and this situation is expected to worsen as construction continues. El

LESARRA**SURROUNDING AREA ANALYSIS**

Dorado Hills Boulevard is the main north/south arterial in the area. Green Valley Road serves as a connector between the communities of El Dorado Hills and the Cities of Folsom and Cameron Park, running in an east-west direction, about 4 miles north of the Highway 50 Freeway. El Dorado Hills Boulevard provides access to both Highway 50 in the southern portion and also Green Valley Road, to the north

EMPLOYMENT

The Employment Development Department (EDD) tracks the employment statistics for the El Dorado Hills community, which it designates as a Census Designated Place (CDP). According to this designation, unemployment rate for El Dorado Hills in June 2010 was 7.7% percent, which is the well below the unemployment rate for both El Dorado County (12.6%) and the Sacramento MSA (12.4%).

LAND USE

El Dorado Hills is an area that is predominantly comprised of single-family residential subdivisions. Additional land uses include a limited supply of multi-family residential, retail and commercial support services and some limited office. It is estimated that the area is approximately 50 percent built out.

The housing stock is relatively young, with the majority of homes constructed since 1980. The general condition and quality of the housing in the area is rated as above average in comparison to the county as a whole. Commercial uses are primarily located along either side of Highway 50 or along El Dorado Hills Boulevard, which serves as the neighborhoods major north/south arterial. Most existing commercial buildings service the surrounding residential base and are comprised of small to medium sized retail centers, a limited number of smaller office buildings and several convenience store/gas stations. Other property uses within the neighborhood include several churches, four schools and several parks.

Other land use characteristics are summarized in the following outline format.

Predominant Age of Improvements	15 years
Predominant Quality and Condition	Good/Excellent
Approximate Percent Developed	50%
Percent Developed as Single-family	75%
Prevailing Single-family Price Range	\$300,000-\$600,000
Life Cycle Stage	Growth
Infrastructure/Planning	Average / Good
Predominant Location of Undeveloped Land	South and Southeast
Prevailing Direction of Growth	South and Southeast

COMMUNITY SERVICES AND FACILITIES

The neighborhood is served by the El Dorado Hills Community Service District, which offers a year-round program of recreation activities. There are numerous parks and community recreational facilities including pools, ball-fields, etc. The El Dorado Hills Golf Course, a public course, designed in the 1960s by Robert Trent Jones, is located at

the northeast quadrant of Highway 50 and El Dorado Hills Boulevard and abuts the subject property. It was purchased by the developers of the large 3,500-acre Serrano El Dorado development, but is still accessible to the public. An additional private 18-hole golf course (The Serrano Country Club), designed by Robert Trent Jones Jr., opened in February 1996 and is located on a hilltop in the center of the Serrano development. This course has hosted PGA senior golf tournaments for the last three years.

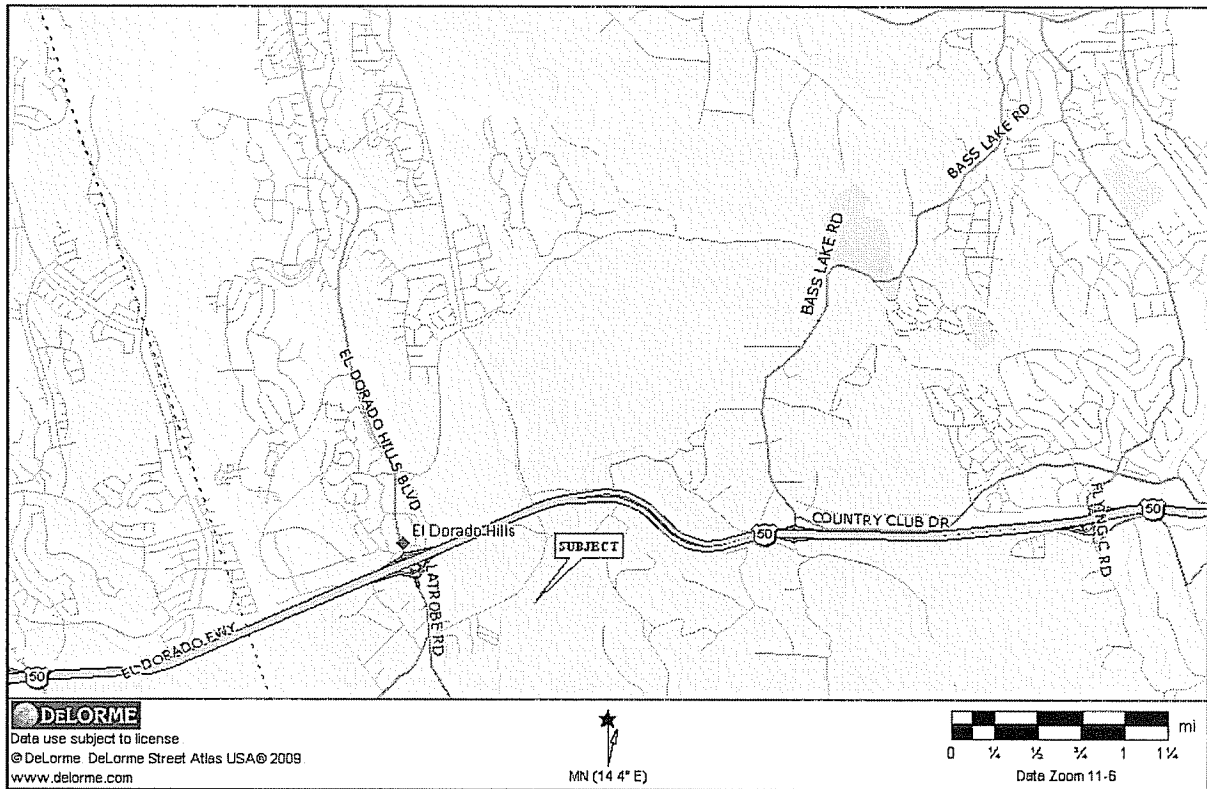
Folsom Lake State Park, adjacent to the northwest portion of the neighborhood, offers boating, fishing, swimming, and water skiing. Parks in the subject's immediate area include Art Weisberg Park near Francisco and Pendleton Drives; and St. Andrew's Park at El Dorado Hills Boulevard and Francisco Drive. There are nine additional parks throughout the El Dorado Hills area.

CONCLUSIONS

The subject's neighborhood is considered a desirable location with good access to employment centers and recreational areas throughout the Sacramento area. Commercial and community facilities are continually being developed to accommodate the residential growth. The positive attributes of the neighborhood include a semi-rural foothill location, a reasonable commute to major employment areas, quality of life, schools and support services. Over the past several years, there has been a significant weakening of market conditions for all real estate sectors. The deteriorating market conditions have not been as severe as many other areas of the region; however, the gravity of the economic crisis and real estate market decline is very severe and this area is expected to experience continued downward trends over the short and mid-term. On a longer term basis, this area should see above average real estate trends for the region as it is a highly desirable residential area.

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SURROUNDING AREA ANALYSIS



SURROUNDING AREA MAP

RESIDENTIAL MARKET ANALYSIS

The condition of the single-family residential real estate market has a bearing on the economic viability of the subject property. The current condition of the single-family market in terms of inventory, demand and sales performance of residential properties has been examined.

GOVERNMENTAL ECONOMIC AND HOUSING INTERVENTIONS

The federal and state governments have recently enacted programs or legislation including components designed to stimulate home sales and/or slow foreclosures. These elements are briefly outlined below.

American Recovery and Reinvestment Act

The federal stimulus plan passed in February 2009 provides for a tax credit of up to \$8,000 for first-time homebuyers who purchase a home between Jan 1 and December 1, 2009. The credit requires the buyer to live in the home as a primary residence and hold the property for at least 3 years (it must be repaid if the home is sold before the 3 years are up). Income limits for this credit are set at \$75,000 for singles and \$150,000 for married couples. This credit was extended to April 30, 2010 and expanded to include an additional (up to) \$6,500 credit for move-up buyers, subject to income limits and price restrictions. Local real estate professionals credit this incentive with significantly spurring demand for houses over the past year. However, it has now expired.

2010 California New Home / First-Time Buyer Tax Credit

The State of California approved a second round of tax credits for home purchases in 2010. The credit applies to taxpayers who purchase a qualified principal residence between May 1, 2010 and January 1, 2011 (contracts). Escrows must close before August 1, 2011 with contract before December 31, 2010. The amount of the credit is the lesser of 5% of the purchase price or \$10,000. The credit is applied in thirds (\$3,333/year) for 3 successive years. Qualified purchases for the new home credit are single-family residences (attached or detached) that have never been occupied, and the taxpayer must use the home as a primary residence for a minimum of 2 years immediately following the purchase. The first-time buyer credit has the same structure and house qualifications. \$100 million has been allocated for each of these two credits. They will be ongoing this year until funds run out.

REGIONAL HOUSING MARKET OVERVIEW

The Sacramento MSA was one of the first major metropolitan areas to feel the effect of the current housing crisis. The region been particularly hard hit by the residential downturn and the sub-prime mortgage crisis in particular because home prices during the last construction cycle had soared so far beyond what local income levels would support – largely due to home purchases by San Francisco Bay area employees with substantially higher incomes and investors who bought homes during this period in attempt to capitalize on sharp appreciation trends. As a result, a massive number of foreclosures have occurred across the region as lenders foreclose on sub-prime borrowers who can no longer afford their mortgage payments.

Although the housing market remains generally weak in the Sacramento MSA, trends over the past several quarters have been much more stable, albeit somewhat mixed, and suggest that the market may finally be bottoming out. Demand spurred by government incentives and low home prices over the past 12 months has dried up large numbers of foreclosure inventory and most of the standing new home inventory that oversupplied the market at the beginning of this down cycle. A better supply and demand relationship with home inventory has stabilized pricing. As a result, more cautious optimism amongst market participants is now more evident than as recently as 6 months ago. Builders have recently begun to acquire existing lots (mostly below replacement cost) and are either constructing new homes or gearing up for new construction in the near term. Still, market indicators continue to be somewhat mixed, and whether the changing trends reflect the beginning of a recovery or just a plateau before another fall remains unclear.

Short-term, the housing market indicators are likely to remain stable but tenuous. Significant risk of a new downward trajectory for the market will exist due to the potential for a new wave of foreclosures related to unemployment and the lack of government incentives spurring sales in the upcoming months.

Historical Trends - New Home Sales & Pricing

The following table summarizes historical data published by Hanley Wood for the Sacramento MSA since 2008.

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RESIDENTIAL MARKET ANALYSIS

NEW DETACHED PRODUCTION HOME PRICING & SALE TRENDS
SACRAMENTO MSA

	2008				2009				2010	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Average Size (SF)	2,397	2,247	2,255	2,356	2,296	2,365	2,408	2,370	2,285	2,272
Avg. Gross Base Price	\$382,178	\$358,215	\$354,917	\$349,357	\$344,095	\$334,746	\$339,629	\$331,363	\$326,148	\$317,700
Avg. Gross Base Price/SF	\$159	\$159	\$157	\$148	\$150	\$142	\$141	\$140	\$143	\$140
Gross Sales	1,659	1,528	998	668	808	862	688	502	695	540
Net Sales/Qtr	1,334	1,266	745	471	654	740	568	460	632	451
Cancellation Rate	19.6%	17.1%	25.4%	29.5%	19.1%	14.2%	17.4%	15.1%	9.1%	16.5%
Monthly Absorption/Project	1.72	1.85	1.11	0.73	1.02	1.52	1.13	0.91	1.38	1.03

Source: Hanley Wood

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RESIDENTIAL MARKET ANALYSIS

Sales of new detached homes have slowed substantially since 2008. As displayed in the table above, sales volumes tend to peak in the first quarter of every year, and decline throughout the remaining quarters. Second Quarter 2010 net sales were 39.1% lower than the year-ago period, and 64.4% lower than Second Quarter 2008. The total annual net sales decline is 37% from the previous year. Quarterly absorption rates have dropped in kind and have remained below two units per month over the reporting period. This rate of sales is very low by historical standards and well below feasibility levels. 2009 sales data reflects a boost in sales due to the aforementioned new home buyer tax credit that was in effect at that time. The congruent decrease in Second Quarter 2010 was a result of the federal home buyer tax credits expiration. Pricing has been trending downwards since 2008, with only the first quarters of 2009 and 2010 showing slight increases on a per-square-foot basis.

Resale Home Trends

The following table summarizes resale housing data for the region for the current quarter and 1) last quarter and 2) the same quarter 12 months ago.

RESALE HOUSING TRENDS - YEAR OVER YEAR - Q2 2010

	Avg. Price			Avg. Price/SF			No. Sales			Avg. Marketing Time (Days)		
	Q2 '10	Q2 '09	% Change	Q2 '10	Q2 '09	% Change	Q2 '10	Q2 '09	% Change	Q2 '10	Q2 '09	% Change
Sacramento	\$203,661	\$190,426	7%	\$124	\$117	6%	5,543	5,822	-5%	59	54	9%
El Dorado	\$356,463	\$366,189	-3%	\$153	\$154	-1%	616	467	32%	80	93	-14%
Placer	\$314,609	\$330,979	-5%	\$147	\$153	-4%	1,445	1,192	21%	72	71	1%
Yolo	\$294,589	\$284,251	4%	\$164	\$161	1%	560	501	12%	57	67	-15%
Sutter/Yuba	\$179,270	\$179,518	0%	\$93	\$97	-4%	188	174	8%	74	71	4%
Region	\$239,674	\$226,562	6%	\$133	\$128	4%	8,352	8,156	2%	63	60	5%

Source: MLS Query - All residential housing types

RESALE HOUSING TRENDS - QUARTERLY CHANGE - Q2 2010

	Avg. Price			Avg. Price/SF			No. Sales			Avg. Marketing Time (Days)		
	Q2'10	Q1 '10	% Change	Q2'10	Q1 '10	% Change	Q2'10	Q1 '10	% Change	Q2'10	Q1 '10	% Change
Sacramento	\$203,661	\$190,505	7%	\$124	\$119	4%	5,543	4,458	24%	59	55	7%
El Dorado	\$356,463	\$332,950	7%	\$153	\$149	2%	616	426	45%	80	84	-5%
Placer	\$314,609	\$309,249	2%	\$147	\$144	2%	1,445	1,120	29%	72	75	-4%
Yolo	\$294,589	\$276,423	7%	\$164	\$153	7%	560	365	53%	57	57	0%
Sutter/Yuba	\$179,270	\$157,401	14%	\$93	\$87	7%	188	147	28%	74	71	4%
Region	\$239,674	\$224,294	7%	\$133	\$128	4%	8,352	6,516	28%	63	61	3%

Source: MLS Query - All residential housing types

Through 2009, regional resale housing prices appeared to have bottomed out. The year-over-year Q2 data shows higher pricing this year as compared to the same quarter last year. Much of the market stabilization last year is attributable to the federal and state tax incentives that were in play, and many market participants have been projecting another dip in the market once they expire. The federal tax credit was still in effect in the first quarter of 2010 and a portion of the second quarter 2010. Still, Q2 pricing showed a slight increase of 4% (on a price/SF basis). This is a modest increase and mostly driven by pricing in Sacramento as the other counties had declining pricing.

The number of sales has remained relatively stable when comparing Q1 of last year and especially last quarter. Even with the expiration of the tax credits, sales from Q1 to Q2 2010 have seen a dramatic increase.

While the current trends are indicative of slightly better market conditions as compared to a year ago, any gains really shows improvement from historically low levels and should not be taken to indicate a strong recovery. The most recent quarterly data suggests that the current state of relative stability may be tenuous.

The following table summarizes the current quarter's data for resale homes listed as REOs.

REO SALES SUMMARY - Q2 2010				
	No. Sales	% of All Sales	Avg Price	Avg Price/SF
Sacramento	2,067	37%	\$168,418	\$106
El Dorado	218	35%	\$297,059	\$136
Placer	393	27%	\$257,904	\$128
Yolo	171	31%	\$221,697	\$121
Sutter/Yuba	73	39%	\$150,464	\$86
Region	2,922	35%	\$192,720	\$113

REO SALES SUMMARY - Q1 2010				
	No. Sales	% of All Sales	Avg Price	Avg Price/SF
Sacramento	1,937	43%	\$162,065	\$104
El Dorado	162	38%	\$251,775	\$126
Placer	386	34%	\$255,752	\$127
Yolo	162	44%	\$211,473	\$108
Sutter/Yuba	68	46%	\$135,011	\$81
Region	2,715	42%	\$283,480	\$169

There were 2,922 resales identified as foreclosures region-wide in Q2 of 2010. This is 35% of all resale homes selling during this period, a decrease from 42% in Quarter 1 2010, and a significant decline from Q3 2009 when foreclosures accounted for 54% of all resales. REOs still account for a very large percentage of the market, and it should be noted that short sales are not included in this number. The proportion of foreclosure homes on the market has been decreasing over the past 6 months. However, we should not lose sight of the fact that a huge fraction of the market's resales were still bank-owned homes.

Major Market Risks

The recent new and resale housing data over the past few quarters shows at least some indications of positive momentum building in the region's housing market, including what appears to be stabilizing new home price declines, increasing prices and sales in the resale market, and a decline in the proportion of REO inventory on the market. These trends suggest that the market may have bottomed out and be on a flat or modest upward trajectory. However, there are factors contributing to these more positive trends that may disappear in the coming months. Also, there are market and economic risks that could undermine any recovery in process and send the housing market into another decline. The following are major risks we perceive to the housing market in the coming months are summarized below:

- There were two major government tax incentives for homebuyers in 2009 that boosted home sales, one on the state and one on the federal level. We saw a

marked decrease in new home sales after the state credit for new homes (only) ran out of funds mid-year. The federal credit expired at the end of April 2010. Most market participants recognize that these have had a significant level of impact on entry-level housing sales, which appear to be where most of the market demand is now. The absence of these incentives this Spring may well contribute to a drop in demand.

- Although the number of foreclosure homes on the market has been declining, there is an unknown, but generally thought to be large number of “shadow inventory” foreclosure homes being held off the market by lenders in the region. This inventory could flood the market with existing homes if lenders do not control their release.
- Unemployment continues to hinder the regional economy. As long as the unemployment rate remains high and growing, the threat of new foreclosures upsetting any housing recovery remains.

In conclusion, it is possible that the optimistic trends that we have been seeing in the sales data reflect artificial and unsustainable demand created by buyer tax incentives. The lack of these incentives, combined with the potential for increased existing and/or new foreclosure inventory entering the market present significant risk to the continuation of positive market trends. The market’s current trends are very tenuous. It is unlikely that the housing market recovery will gain firm momentum until the jobs market shows improves to the point which the risk of new foreclosures wanes.

Market Participant Comments

The appraisers spoke with several residential land brokers as well as developers, investors, and/or builders involved in recent land sale transactions in the market area during the course of this assignment or other assignments performed within the past 2 to 3 months as part of the sales confirmation process and in order to gather opinions about the marketability of the subject property in particular. The market participants involved in our survey for this assignment in particular will not to be specifically identified to preserve their trust and willingness to be forthcoming. They include brokers from following brokerage houses: Colliers International, CB Richard Ellis, Park Place Partners, and local developer/investors.

Our interviews with several active land brokers revealed that there is that interest for undeveloped land has been picking up in the past several months whereas the land market was all but dead in 2008 and the first half of 2009 – regardless of entitlements. A few land sale transactions occurred at the end of 2009. The market participants attribute the increased interest to a dwindling supply of existing lots, leveling off of market conditions, and sellers being more willing to entertain much lower prices than in the past. It should be noted that most of the sales at year end involved motivated sellers who stood to write off millions of dollars of losses if they could sell at that time. All market participants mirrored the notion that residential land values have come down very considerably in the past 2 years and that land still has to be very well-priced in order to attractive to buyers in this market.

The market participants indicate that there is still a lot more interest in acquiring finished lots at a favorable price as opposed to undeveloped land because they are still available at or near replacement cost and none of the entitlement work remains to be achieved. This notion is well supported by the marked increase in lot sales in the Elk Grove and Roseville/Rocklin areas in the past few months. However, the more recent finished lot sales reflect significant price increases over similar transactions that occurred in the preceding 12 months. Pricing for unentitled land and tentative map properties has remained relatively stable throughout 2009 and into 2010.

ATTACHED HOUSING MARKET/SUBJECT MARKETABILITY

The subject consists of 15 completed units within the Lessara condominium project in El Dorado Hills and 105 lots for future development. The subject is the only condominium project in El Dorado Hills. The subject competes with attached housing projects throughout the Sacramento MSA, most specifically re-sales in the nearby Folsom submarket.

Active Projects

According to Hanley Wood, there are currently 9 condominium/townhouse projects that are currently active in sales in the Sacramento MSA. These projects are listed on the following table.

LESARRA

RESIDENTIAL MARKET ANALYSIS

COMPETITIVE PROJECTS PRICING & ABSORPTION SUMMARY									
ACTIVE CONDOMINIUM PROJECTS - SACRAMENTO MSA									
Project Name Developer	Unit Size (SF)	Base Prices	Prices Per SF	Date Opened	Tot. Lots No. Sales	Overall	Absorption 2009	YTD 2010	Concessions Other Comments
Arroyo Vista (Rocklin) Ryland Homes	1,307	\$269,990	\$206 57	Jan-07	120	2 84	3 25	3 67	\$15,000 w/lender All units are complete and selling final homes
	1,771	\$305,990	\$172 78						
	1,847	\$302,990	\$164 04						
Fusion at Capital Village (Rancho Cordova) Beazer Homes	1,065	\$171,425	\$160 96	Feb-08	180	4 39	4 00	6 67	None 24 Units under construction 2 units of standing inventory
	1,311	\$199,000	\$151 79						
	1,658	\$227,000	\$136 91						
L Street Lofts (Downtown) SKK Development	676	\$315,000	\$465 98	Jan-07	92	0 77	0 58	0 83	None All units complete. Project re-opened for sales in late 2009 after sales were halted for over 1 year
	942	\$439,000	\$466 03						
	1,056	\$675,000	\$639 20						
	1,076	\$485,000	\$450 74						
	1,241	\$658,000	\$530 22						
Orchard at Penryn Park (Penryn) Mandarich Development	1,584	\$275,000	\$173 61	Oct-07	85	0 95	1 50	0 50	6% w/lender 37 units complete No units under construction
	1,900	\$295,000	\$155 26						
	1,963	\$305,000	\$155 37						
Outlook at Treehouse (Folsom) Signature Properties	1,129	\$199,900	\$177 06	Jan-10	185	2 83	N/A	2 83	\$5,000 w/lender 11 units under construction
	1,190	\$217,575	\$182 84						
	1,234	\$222,900	\$180 63						
	1,319	\$244,850	\$185 63						
	1,379	\$249,865	\$181 19						
Pavilions (Sacramento) Ravel Rasmussen	1,435	\$249,900	\$174 15	Apr-10	65	0 72	0 67	0 50	\$10,000 w/lender All unsold units are standing inventory
	2,277	\$550,000	\$241 55						
	2,282	Sold Out							
	2,367	\$580,000	\$245 04						
Rivage at the Parkway (Folsom) Standard Pacific Homes	2,537	\$625,000	\$246 35	Apr-10	65	1 48	N/A	1 48	\$10,000 w/lender
	1,324	\$236,000	\$178 25						
	1,514	\$250,000	\$165 13						
Vicara at Whitney Ranch (Rocklin) D R Horton	1,760	\$265,000	\$150 57	Jan-07	264	6 33	3 58	0 33	\$5,000 w/lender
	898	\$99,990	\$111 35						
	1,050	\$124,990	\$119 04						
Washington Park Village (Downtown) Signature Properties	1,066	Sold Out		May-06	52	0 81	0 25	0 83	\$10,000 w/lender
	1,229	\$299,900	\$244 02						
	1,288	\$319,900	\$248 37						
	1,468	\$343,900	\$234 26						
Source: Hanley Wood Dated June 30, 2010						Min	0 72	0 25	0 33
						Max	6 33	4 00	6 67
						Mean	2 35	1 98	1 96
						Median	1 48	1 50	0 83

As can be seen on the table above, the nine projects vary in pricing from \$99,990 up to \$675,000. The majority of the projects have pricing in the mid to low \$200,000's. The L Street Lofts and Pavilions have the highest pricing points as they are luxury communities with the highest quality finishouts. Also, L Street Lofts has a prime location in the CBD.

The absorption rates for year-to-date 2010 range from 0.33 up to 6.67 units per month. The Fusion at Capital Village (6.67) represents the upper end of the range and the remaining seven projects have a range in absorption rates from 0.33 to 2.83 units per month.

The subject property's 15 completed units range in size from 804 to 1,340 square feet in size. Our estimate of pricing for the units ranges from \$105,000 up to \$145,000. This is below all of the pricing of the comparable active projects on the prior table. This is due to the subject's location in El Dorado Hills and difficulty in finding buyers

for attached housing in a market that does not have any other attached housing properties. Based on the estimated pricing, we estimate that the subject's 15 units would sell out at an absorption rate of 1-2 units per month.

CONCLUSIONS – RESIDENTIAL MARKET

The regional housing market shifted dramatically in 2005 and has declined since this time in response to increasing interest rates, decreasing affordability in the region, poor buyer confidence, and an oversupply of inventory from overbuilding and foreclosures. The region's declining residential market is evident in the very slow sales trends, price declines and large, widespread concessions that have become more and more prevalent in the past few years.

As 2010 has begun, the region has begun to see some hopeful signs that the residential market might be stabilizing, with multiple year-over-year monthly sales increases, a moderate drop in foreclosures on the market, a leveling out of resale home prices, and significant buyer competition for entry-level homes and foreclosures in particular. These trends have created a sense of cautious optimism amongst many market participants and analysts. However, it is important to keep in mind that new home sales this year have been boosted by the state's new home buyer credit, funds for which were only recently exhausted. The decline in foreclosure homes on the market may be short-lived as default notices are still rising, unemployment remains very high, and there is still a shadow market of bank-owned homes that lenders are just not putting on the market yet. It is premature to know with any certainty whether the very recent, more stable trends are a sign of recovery or simply a brief leveling out of the market before further declines resume. Over the mid- to long-term, the Sacramento MSA will likely return to a growth phase due to relatively low home prices compared to the coastal markets and a large, stable, diverse job-base compared to other central valley locations. Short term, however, market conditions will likely remain poor and tenuous until foreclosures slow down and the bulk of the excess home inventory has been reabsorbed into the market.